THE DISCIPLINE OF WEALTH:

APPLYING A BUSINESS MINDSET TO WEALTH MANAGEMENT

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"Success in business requires training and discipline and hard work. But if you're not frightened by these things, the opportunities are just as great today as they ever were."

David Rockefeller, US banker

Discipline and delegation are cornerstones for entrepreneurs as they take their vision from concept to reality. Yet when the vision pays off with considerable wealth, these elements often go missing from their approach to personal financial management. Recapturing that discipline allows individuals to run their personal lives with the same organization, clarity and dependability that fed their success on the business side.

When the structure and information that fuels decision making is missing from personal finance, the result can be chaos. Successful entrepreneurs can expect to experience personally the same issues that may arise at their company: a confused financial picture, missed opportunities, and a growing list of challenges.

Indeed, Rajeev Peshawaria, a CEO and contributor to Chief Executive Magazine, notes, "Just as the human body needs three systems—the brain, bones, and nerves—functioning in perfect harmony to maximize longevity and performance, a business needs its strategy, architecture, and culture to work in harmony in order to maximize results. An enterprise leader…should focus on these three as the most important areas; everything else must be delegated."

Personal wealth management should be part of that delegated workload. As the complexity of the financial picture grows, it becomes more challenging to integrate wealth management into personal pursuits in a way that considers the full scope of financial (and sometimes non-financial) goals. Whether an individual is running an established business, focusing on philanthropy, or starting and funding new ventures, investment portfolios should be designed to support and complement those objectives. Money for a promising startup company, for example, can come from any number of areas – personal cash reserves, financing, a family trust; choosing the right source can minimize disruption on a portfolio while keeping tax exposure to a minimum.

Those looking to gain more control and confidence over their wealth will enjoy greater security by taking action when discipline goes missing, leaning on trusted advisors, and staying informed and organized.

TAKE ACTION WHEN DISCIPLINE GOES MISSING

"In life, everybody faces choices between doing what's popular, easy, and wrong vs. doing what's lonely, difficult, and right. These decisions intensify when you run a company, because the consequences get magnified 1,000 fold."

Ben Horowitz, co-founder and general partne
of venture capital firm Andreessen Horowitz

Because many entrepreneurs often start out with a modest portfolio, they are comfortable managing it on their own. But with success comes that 1,000 fold magnitude of increased complexity. The intricacies of wealth management call for additional expertise, attention to detail and time.

There are warning signs that incoming wealth is outpacing the ability to manage it. Having too much or too little cash on hand is a common early indicator that can lead to missing out on yield, bills going unpaid and even poor credit ratings that may impact future planning.

Such lack of control over cash is a noted area of concern for ultra high net worth families. According to a recent Barclays Wealth survey, "despite their wealth, 41% of high net worth individuals wish they had more self-control over their financial behavior… Interestingly, a need for increased financial discipline is likely to be felt most by those at the wealthiest end of the scale ($16m+), where 45% of respondents wish they had more self-control."

Beyond the early warning signs showing lack of cash management, issues like estate planning loom as large pitfalls. Periodically reviewing and revisiting an estate plan usually falls fairly low on the priority list, but is a critical component to sound financial planning. Consider an individual who wants to leave $500,000 to a sibling and has documents that bequest 10% of their estate, based on initial holdings of $5 million. When that net worth grows over time, the documents can quickly become outdated and transfer far more than ever intended.

Another red flag is tax exposure. Hedge fund investors may be happy with what appears to be a healthy return, but face disappointment upon learning that their earnings after tax are far less exciting. Closer management of how investments are owned (e.g., owning tax inefficient hedge funds in an IRA) could help avoid these and other tax traps.

When these warning lights go off, individuals should take the same actions they would in their business: get organized, get informed and delegate what they cannot manage by themselves.

LET A TRUSTWORTHY TEAM DEVELOP THE TACTICS

"[It's important] to have a team around you that appreciates your view of the world, understands the strategy going forward and can…[make sure that] everyone is on the same page when it comes to the mission and vision and how to build and execute a strategy."

Michael Useem, Wharton professor of management and director of its Center for Leadership and Change Management

Finding a trustworthy advisory team to support and manage personal wealth opens up new windows of time and resources. In order to make informed decisions, people should feel comfortable that they will receive qualified and experienced advice about their wealth, which will allow them to make informed decisions and be confident that they will achieve their goals.

That means working with wealth managers who are unbiased, with no in-house products to sell and no financial ties to other money managers. This should be the first criteria in choosing an advisory team, as guidance from an advisor who receives compensation from anyone other than clients will always be questionable.

In addition, the team should be able to operate beyond the confines of portfolio management. Investments are often the centerpiece of a financial plan, but the advisor must also be able to highlight issues and opportunities with income and estate taxes, life insurance, philanthropy and intergenerational planning. Focusing on the complete picture of family wealth enables the team to be certain of the impact that specific decisions will have on cash flow and the balance sheet.

In this vein, rebalancing a portfolio becomes an excellent opportunity for families who have philanthropic goals. Donating highly appreciated securities directly to charities or even to the family foundation can help avoid the realization of capital gains on the sale of those assets, while still providing a charitable deduction at full fair market value.

Families must also be ready to educate the next generation about what they will need to know to manage the family wealth when the patriarch or matriarch steps down. Managing charitable funds provides a good, emotionally-neutral arena for families to work together and exposes the younger generation to investing, taxes and budgeting. The next generation can then apply what they have learned to their own financial lives.

STAY INFORMED AND ORGANIZED

"My experience, and what I'm hearing from more organizations (sports and non), shows that real advantage comes from unique data that no one else has."

Daryl Morey, general manager of the Houston Rockets, co-chair of the MIT Sloan Sports Analytics Conference

Just as in business, financial decisions should be made with the best information available. Specific, targeted data should focus on the essence of what is important to the individual or family. This allows teams to apply their expertise in the most effective ways, avoid focusing on irrelevant strategies and offer alternatives that would otherwise go undiscovered.

For example, comparing portfolio performance against standard indices gives a general picture of investment success, but much greater insight comes when returns from managers are also compared against their peers. Such benchmarking can include other managers in an individual's portfolio as well as managers who are not currently on the roster. This provides a deeper understanding of performance in an objective context and allows for more balanced decision making.

Data, however, means little unless it is clearly communicated. Timely, succinct reports help drive good decisions. They contain only the most relevant information and are presented in a format that is easily interpreted and gives an overview of where a family stands, where they have been and where they might be going. Such reports should be tailored specifically to a family's needs, which is in contrast to many "standard" statements in the financial industry that include extraneous details or page after page of restated information. When the data is clear, client-advisor meetings are more efficient, problems and opportunities are apparent and decisions can be made with confidence.

Discipline makes the difference in the most important areas of life – whether that means business, fitness or artistry – and financial matters are no exception. As monetary rewards follow from a lifetime of work, making the most of that success requires the same discipline that helped create it.

ABOUT CAROLYN B. R. DECKER, CFP®, CPA, PFS

Carolyn is a co-owner and Relationship Manager with Lake Street. Previously, Carolyn worked for Ballentine, Finn & Company and in the tax department of Deloitte & Touche in both the Washington, DC and Philadelphia offices. Carolyn earned a Bachelor of Science in Accountancy, cum laude, from Villanova University.

ENDNOTES

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